

CALIFORNIA LOTTERY

Report of Analysis

QUARTERLY TRANSFER OF FUNDS TO PUBLIC EDUCATION

For the Quarter Ended June 30, 2010



JOHN CHIANG
California State Controller

May 2011



JOHN CHIANG
California State Controller

May 13, 2011

John Mass, Chairperson
California Lottery
600 North Tenth Street
Sacramento, CA 95811

Dear Mr. Mass:

The State Controller's Office analyzed the financial documentation supporting the California Lottery's (Lottery) transfer of funds to public education for the quarter ended June 30, 2010.

The Lottery requested the transfer of \$266,000,000 to the Lottery Education Fund for disbursement to education. Our analysis determined that this amount was supported by the Lottery's accounting records. We also determined that no unexplained charges in accounts existed when compared with prior records. On September 2010, \$265,999,979 was transferred to the Lottery Education Fund. The difference of \$21 is due to rounding in the current and prior quarters.

The Lottery returned only 86.81% of the total annual revenues from the sales of tickets to the public for the year ended June 30, 2010. Of that, 52.99% was returned to the public in form of prizes, and 33.82% was transferred to public education. An amendment to the Lottery Act, Assembly Bill (AB) 142 (Chapter 13, Statutes of 2010), was an urgency statute that took effect on April 8, 2010. It requires the Lottery to return no less than 87% of the total annual revenues from the sales of Lottery tickets or shares to the public, in the form of prizes and net revenues to benefit public education. The difference between actual total annual revenues from ticket sales returned to the public and the statutory requirement is 0.19%, which is equal to \$5,636,273.

The Lottery administrative expenses for the year ended June 30, 2010, were 13.19% of revenues from ticket sales. As amended, the Lottery Act requires that no more than 13% of the total annual revenues should be allocated for payment of expenses of the Lottery. The difference between actual expenses and the statutory requirements is 0.19%, which is equal to \$5,636,273. The Lottery should monitor carefully its administrative costs to ensure compliance with the requirements of the AB 142 urgency statute.

The Lottery inappropriately included the \$45,250,979 net proceeds gained from the Lottery's investment restructuring program, with revenue from ticket sales for the year ended June 30, 2010, to meet the statutory allocation requirements.

If you have any questions, please call Andrew Finlayson, Chief, State Agency Bureau at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

cc: Linh Nguyen, Acting Director
California Lottery Commission
Alex E. Fortunati, Commissioner
California Lottery Commission
John Menchaca, Commissioner
California Lottery Commission
Michael T. Ota, Deputy Director
Finance Division
California Lottery
Roberto Zavala, Chief
Internal Audits
California Lottery

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Report of Analysis

Summary

In a letter dated September 2, 2010, the California Lottery (Lottery) requested that the State Controller's Office (SCO) transfer \$266,000,000 to the Lottery Education Fund for disbursement to public education. The SCO's review determined that this amount was supported by the Lottery's accounting records.

The Lottery returned only 86.81% of the total annual revenues from the sales of tickets to the public for the year ended June 30, 2010. Of that, 52.99% was returned to the public in form of prizes, and 33.82% was transferred to public education. An amendment to the Lottery Act, Assembly Bill (AB) 142 (Chapter 13, Statutes of 2010), was an urgency statute that took effect on April 8, 2010. It requires the Lottery to return no less than 87% of the total annual revenues from the sales of Lottery tickets or shares to the public, in the form of prizes and net revenues to benefit public education. The difference between actual total annual revenues from ticket sales returned to the public and the statutory requirements is 0.19%, which is equal to \$5,636,273.

The Lottery administrative expenses for the year ended June 30, 2010, was 13.19% of revenues from ticket sales. The Lottery Act requires that no more than 13% of the total annual revenues should be allocated for payment of expenses of the Lottery. The difference between actual expenses and the statutory requirements is 0.19%, which is equal to \$5,636,273. To ensure compliance with the requirements of the AB 142 urgency statute, the Lottery should monitor carefully its administrative costs in order to maximize the amount of funding allocated to public education.

The Lottery inappropriately included the \$45,250,979 net proceeds gained from the Lottery's investment restructuring program, with revenue from ticket sales for the year ended June 30, 2010, to meet the statutory allocation requirements. The Lottery management adopted a policy that net proceeds gained from the investment restructuring program should be treated consistent with revenues from the sales of tickets.

The SCO's analytical review did not disclose any unexplained changes in accounts in a comparison with prior periods. Accordingly, on September 30, 2010, \$265,999,979 was transferred to the Lottery Education Fund. The difference of \$21 is due to rounding in the current and prior quarters.

Introduction

This report presents the results of our analysis of the Lottery's quarterly request that the SCO transfer funds to public education. This analysis is part of our responsibility under the California State Lottery Act (Lottery Act). We performed this analysis to determine if the transfer of funds to public education was supported by amounts recorded in the Lottery's accounting records and to determine whether the Lottery complied with the annual Lottery Education Fund allocation requirements contained in the Lottery Act.

Background

In 1984, California voters passed an initiative that, by amending the State Constitution, authorized a state-operated lottery. The initiative created the Lottery Act, which requires the quarterly transfer of net revenues to public education and establishes the allocation percentages for Lottery funds. The Lottery Act also requires the SCO to conduct quarterly and annual post-audits of all accounts and transactions of the California Lottery Commission and other special post-audits as the State Controller deems necessary.

Each quarter the Lottery requests that the SCO transfer net revenues to public education (see Attachment). The Lottery request usually occurs eight to ten weeks after the close of the quarter.

The Lottery Act was amended by AB 142 on April 8, 2010. The bill was an urgency statute that went into effect immediately. AB 142 required revenues from the Lottery to be allocated so as to maximize the amount of funding allocated to public education. The bill required that not less than 87% of the total annual revenues of the Lottery be returned to the public, and no more than 13% be used for Lottery expenses. The bill specified that, of the 87%, not less than 50% of the total annual Lottery revenues, in an amount to be determined by the Lottery Commission, be returned to the public in the form of prizes. In addition, the bill required the Lottery Commission to establish the percentage to be allocated to the benefit of public education at a level that maximizes the total net revenues allocated to the benefit of public education.

On April 14, 2010, Lottery staff presented the revised budget for fiscal year (FY) 2009-10 reflecting passage of AB 142. The Lottery Commission approved the revised budget for FY 2009-10.

Objectives, Scope, and Methodology

We performed this analysis of the quarterly transfer of funds to public education in order to determine whether:

- Transfer amounts are supported by the Lottery's accounting records; and
- The Lottery is in compliance with the annual allocation requirements specified in the Lottery Act.

We traced the transfer amount to Lottery financial statements and accounting records, and applied analytical review procedures to the Lottery fund accounts by comparing them with those from the prior quarter and the prior year. To monitor the Lottery's progress in meeting the annual statutory requirements, we reviewed the actual costs for prizes and administration, as well as the quarterly fund transfer to public education.

Results

After reviewing the Lottery's unaudited financial statements and supporting records for the quarter ended June 30, 2010, we determined that the Lottery's request to transfer \$266,000,000 to the Lottery Education Fund is supported by formal accounting records.

According to the Lottery's unaudited financial statements, the total amount available for transfer to education was \$1,094,209,437 for the year ended June 30, 2010. Of this amount, \$289,843,672 was transferred to the Lottery Education Fund on December 30, 2009; \$271,984,473 was transferred on March 30, 2010; and \$261,390,665 was transferred on June 28, 2010. With a net of \$4,990,627 withheld pending audit, a balance of \$266,000,000 was left. Of this amount, \$265,999,979 was transferred to the Lottery Education Fund on September 30, 2010. The difference of \$21 is due to rounding in the current and prior quarters.

The Lottery returned only 86.81% of the total annual revenues from the sales of tickets to the public for the year ended June 30, 2010. Of that, 52.99% was returned to the public in form of prizes, and 33.82% was transferred to public education. An amendment to the Lottery Act, Assembly Bill 142 (Chapter 13, Statutes of 2010), was an urgency statute that took effect on April 8, 2010. It requires the Lottery to return no less than 87% of the total annual revenues from the sales of Lottery tickets or shares to the public in the form of prizes and net revenues to benefit public education. The difference between actual total annual revenues from ticket sales returned to the public and the statutory requirement is 0.19%, which is equal to \$5,636,273.

The Lottery administrative expenses for the year ended June 30, 2010, were 13.19% of revenues from ticket sales. The Lottery Act requires that no more than 13% of the total annual revenues should be allocated for payment of expenses of the Lottery. The difference between actual expenses and the statutory requirements is 0.19%, which is equal to \$5,636,273 (rounded). To ensure compliance with requirements of the AB 142 urgency statute, the Lottery should monitor carefully its administrative costs in order to maximize the amount of funding allocated to public education.

The Lottery inappropriately included the \$45,250,979 net proceeds gained from the Lottery's investment restructuring program, with revenue from ticket sales for the year ended June 30, 2010, to meet the statutory allocation requirements. The Lottery management adopted a policy that net proceeds gained from the investment restructuring program should be treated consistent with revenues from the sales of tickets. The Lottery included net proceeds from investment restructuring combined with projected ticket sales in the Lottery's budget for FY 2009-10. The Lottery staff stated that they used the additional resources from the investment proceeds to increase prize payouts and advertising expenditures to increase contributions to education. However, the Lottery's transfer request letter dated September 2, 2010, included \$45,250,979 of net proceeds clearly defined as an additional fund from operational income.

All Lottery revenues from any source should be placed in the State Lottery Fund.

Government Code section 8880.61 states in part:

(a) A special fund to be known as the "State Lottery Fund" is created within the State Treasury that is continuously appropriated for carrying out the purposes of this chapter. The fund shall receive all proceeds from the sales of lottery tickets or shares, the temporary line of credit for initial startup costs, and all other moneys credited to the Lottery from any other source. The Treasurer shall designate a depository to receive lottery proceeds for transmission to the State Treasury and for deposit in the State Lottery Fund.

The Lottery Act specifies that the sale of Lottery tickets should be appropriated for prizes and administrative expenses. The net proceeds from restructuring of the portfolio must be transferred to the State Lottery Education Fund, and cannot be allocated for prizes or administrative expenses.

Government Code section 8880.63(a) specifically states:

As nearly as practical, at least 50 percent of the total projected revenue, computed on a fiscal-year basis, accruing from the sales of all lottery tickets or shares shall be apportioned for payment of prizes.

Additionally, Government Code section 8880.64(b)(1) states:

Not more than 13 percent of the total annual revenues accruing from the sale of all lottery tickets and shares from all lottery games shall be expended for the payment of the expenses of the lottery.

All funds remaining in the State Lottery Fund after accrual of all obligations for prizes and expenses as deemed to be "net revenues" of the Lottery and must be transferred to the State Lottery Education Fund.

Government Code section 8880.65, Transfer of Net Revenues, states:

The funds remaining in the State Lottery Fund after accrual of all revenues to the State Lottery Fund, and after accrual of all obligations of the Lottery for prizes, expenses, and the repayment of any funds advanced from the temporary line of credit for initial startup costs and interest thereon shall be deemed to be the net revenues of the Lottery.

Thus, revenues from any source, such as the net proceeds from investment, remain in the State Lottery Fund as net revenues to be transferred to the fund on a quarterly basis. The proceeds from restructuring investments cannot be added to the total revenue to comply with the Lottery Act.

Subsequent to the transfer to education, we compared the unaudited Statement of Revenues, Expenses, and Changes in Net Assets with the audited Statement of Revenues, Expenses, and Changes in Net Assets received on October 27, 2010. We noted an increase of \$4,462,218 in the operating expenses. This adjustment was the result of the increase in

accumulated depreciation and amortization and the impairment charge account for the depreciation and amortization expenses relating to the Lottery headquarters buildings. This amount will be offset against the amount withheld of \$4,990,627 pending audit adjustments, resulting in a net adjustment of \$528,409 due the Education Fund. This amount will be added to the first quarter transfer of FY 2010-11.

Application of AB 142

Lottery's Response

For most of the 2009-2010 fiscal year, the Lottery Act required that at least 84% of total annual revenues be returned to the public in the form of prizes and contributions to public education and that administrative expenses not exceed 16%. On April 8, 2010, near the end of that fiscal year, Assembly Bill (AB) 142 was enacted and changed that formula to 87% and 13%.

The SCO applied the AB 142 formula to the entire 2009-2010 fiscal year, including time periods that already passed, and concluded that the Lottery exceeded the 13% limitation on administrative expenses and did not direct 87% to prizes and contributions to education.

AB 142 must be applied prospectively, not retroactively. AB 142 specifically states that its provisions shall be applied beginning "the first full fiscal year following enactment." The first full fiscal year after is April 8, 2010 enactment is the 2010-2011 fiscal year, beginning July 1, 2010. AB 142 did not contemplate retroactive application, and it would be unreasonable to apply the new requirements to time periods that already passed.

SCO's Comment

The Lottery should have applied the AB 142 formula since the Lottery Act was amended by urgency legislation, effective on April 8, 2010. On April 14, 2010, the Lottery Commission approved a revised budget for fiscal year 2009-10 based on the passage of AB 142. Through the revised budget, the Lottery partially implemented AB 142 by offering a higher prize Scratch game with which the Lottery anticipated increasing ticket revenue. The Lottery interpreted that the passage of the AB 142 allowed them the flexibility to determine the amount of annual revenue that are returned in prizes. However, the Lottery did not implement other elements of AB 142, such as the percentage allowed for administrative expenses. Our conclusion remains unchanged.

Allocation of Gains From the Purchase and Sale of Investments

Lottery's Response

Gains on investments are not revenues from the sale of Lottery tickets. All revenues including moneys credited from any source are deposited in to the State Lottery fund and are available for appropriate Lottery use including the purchase and sale of securities and the investment of funds deposited in the State Lottery Fund in other investments both inside and outside the State Treasury system. With two exceptions not relevant here, the Lottery Act does not restrict the use of funds from sources other than the sale of Lottery tickets. Rather, those funds may be properly used by the Lottery Commission in its sound discretion in order to maximize contributions to public education.

The Lottery Commission in enacting the 2009-2010 Lottery budget, applied the same formula to gains from the purchase and sale of investments as the formula applied to revenues from the sale of Lottery tickets. Those gains were directed to prizes and advertising expenses, which increase sales of Lottery tickets, thereby increasing contributions to public education. This is consistent with the Lottery's mission to maximize contributions to public education.

SCO's Comment

The Lottery should not have included the net proceeds from restructuring investments to the total revenue to comply with the Lottery Act. The net proceeds from restructuring should have been transferred to the State Lottery Education Fund and not been allocated to prizes or administrative expenses. The Lottery Act specifies that only the sale of Lottery tickets should be appropriated for prizes and administrative expenses.

The Statement of Revenues, Expenses, and Changes in Net Assets for the twelve months ended June 30, 2010, attached to the Lottery's transfer request letter dated September 2, 2010, did not classify the \$45,250,979 from net proceeds as revenues nor as sales. However, that amount was included as part of investment earning account.

In addition, Note 11, Statutory Compliance, in the audited financial statements for the twelve months ended June 30, 2010, was labeled as "unaudited." This is the only area of the audit financial statements report where the investment proceeds from portfolio restructuring were commingled with Lottery ticket sales to determine compliance with statutory percentages. Our conclusion remains unchanged.

Views of Responsible Official

The SCO issued a draft report to the Lottery dated March 17, 2011. Linh Nguyen, Acting Lottery Director, responded by letter dated April 7, 2011. Mr. Nguyen disagreed with our conclusions.

Restricted Use

This report is intended for the information and use of the California Lottery, the California Lottery Commission, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

May 13, 2011

Schedule 1— Summary of Lottery Transfers and Status of Compliance with Statutory Requirements

Fiscal Year 2009-10	Quarter Ended											
	09/30/2009		12/31/2009		03/31/2010		06/30/2010 ⁷					
		%		%		%		%				
Sales ¹	\$	797,978,266	100.00%	\$	1,493,295,907	100.00%	\$	2,242,907,213	100.00%	\$	3,040,959,866	100.00%
Prizes	\$	427,670,458	53.59%	\$	793,743,387	53.15%	\$	1,194,510,180	53.26%	\$	1,611,371,074	52.99%
Administration	\$	94,051,992	11.79%	\$	180,429,092	12.09%	\$	273,754,469	12.20%	\$	400,961,056	13.19%
Available for Education	\$	276,255,816	34.62%	\$	519,123,428	34.76%	\$	774,642,564	34.54%	\$	1,028,627,736	33.82%
Prizes and Available for Education		—			—			—			2,639,998,810	86.81%
Other Income ²		13,587,856			42,704,717			48,576,246			65,581,701	
Adjustment		4,420,315 ⁶			—			—			(4,990,627) ⁸	
Adjustment		7,297,200 ³			—			—			—	
Transfer to Education	\$	301,561,187		\$	561,828,145		\$	823,218,810		\$	1,089,218,810	

Fiscal Year 2008-09	Quarter Ended							
	09/30/2008		12/31/2008		03/31/2009		06/30/2009	
		%		%		%		%
Sales ¹	\$ 755,999,049	100.00%	\$ 1,464,063,575	100.00%	\$ 2,208,959,936	100.00%	\$ 2,954,839,094	100.00%
Prizes	\$ 406,906,177	53.82%	\$ 783,073,238	53.49%	\$ 1,170,457,861	52.99%	\$ 1,556,120,634	52.66%
Administration	\$ 97,556,880	12.91%	\$ 186,963,275	12.77%	\$ 282,915,271	12.81%	\$ 392,840,526	13.30%
Available for Education	\$ 251,535,992	33.27%	\$ 494,027,062	33.74%	\$ 755,586,804	34.20%	\$ 1,005,877,934	34.04%
Other Income ⁴	8,674,324		15,960,658		22,389,497		35,518,682	
Adjustment	3,609,618 ⁵		—		—		(4,420,315) ⁶	
Transfer to Education	\$ 263,819,934		\$ 509,987,720		\$ 777,976,301		\$ 1,036,976,301	

Annual Statutory Requirements Before AB 142

Prizes = Approximately 50% of sales
Administration = No more than 16% of sales
Available for education = At least 34% of sales
Other income = 100% due education

Annual Statutory Requirements After AB 142 (enacted April 8, 2010)

Prizes = Not less than 50% of sales
Administration = No more than 13% of sales
Prizes and available for education = Not less than 87% of sales
Other income = 100% due education

Note: The actual percentage allocation is computed on an annual basis when determining whether the Lottery has met the allocation requirements. The percentages shown above indicate the Lottery's year-to-date progress toward meeting these requirements.

¹ Quarterly amounts represent fiscal year-to-date totals.

² Includes interest income, other income, and unclaimed prizes. The first quarter through the fourth quarter of fiscal year (FY) 2009-10 includes net proceeds from investment restructuring.

³ The amount represents the \$7,297,200 from the FY 2008-09 audit adjustment.

⁴ Includes interest income, other income, and unclaimed prizes. The fourth quarter of FY 2008-09 includes proceeds from investments.

⁵ This amount represents the \$3,609,618 withheld in the fourth quarter of FY 2007-08, pending the financial audit and resolution of accounting issues.

⁶ This amount represents the \$4,420,315 withheld in the fourth quarter of FY 2008-09, pending the financial audit and resolution of accounting issues.

⁷ AB 142 was enacted on April 8, 2010.

⁸ This amount represents the \$4,990,627 withheld in the fourth quarter of FY 2009-10, pending the financial audit and resolution of accounting issues.

**Attachment 1—
California Lottery's
Transfer Request of September 2, 2010**

CALIFORNIA STATE LOTTERY FUND
Statement of Revenues, Expenses, and Changes in Net Assets
For the Twelve Months Ending June 30, 2010

Lottery sales	\$3,040,959,866
Prizes	1,611,371,074

Sales after prizes	\$1,429,588,792

Less game costs:	
Retailer costs	\$214,484,059
On-line game costs	35,984,278
Off-line game costs	18,214,865

Total game costs	\$268,683,202

Income before operating expenses	\$1,160,905,590

Operating expenses:	
Salaries, wages and benefits	\$46,011,332
Advertising	33,666,684
Promotion, public relations and point of sale	8,025,477
Other professional services	10,341,565
Depreciation and amortization	15,955,018
Other general and administrative expenses	18,277,778

Total operating expenses	\$132,277,854

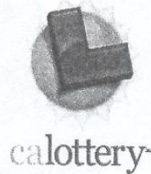
Operating income	\$1,028,627,736
Non-operating (expenses) revenues:	
Investment earnings (Note 9)	\$26,795,655
Other Income	347,694
Allocation to Education Fund (Note 7)	(1,076,958,971)

Total non-operating (expenses) revenues	(\$1,049,815,622)

Changes in net assets	(\$21,187,886)
Total net assets-beginning of year	147,038,053

Total net assets-end of year	\$125,850,167
	=====

600 North Tenth Street
Sacramento, CA 95811
calottery.com



September 2, 2010

Mr. Michael Havey, Chief
Division of Accounting and Reporting
State Controller's Office
3301 C Street, Suite 500
Sacramento, CA 95816

Dear Mr. Havey:

The California State Lottery requests that you transfer to the Lottery Education Fund for disbursement to the education community \$266,000,000. This figure represents:

Operating income for the year ended June 30, 2010	\$ 1,028,627,736
Proceeds from investments	45,250,979
SMIF interest earned	2,732,562
Other Income	347,694
Unclaimed prizes	<u>17,250,466</u>
	<u>\$ 1,094,209,437</u>
 Less: Transfer for the nine months ended March 31, 2010	 \$ 823,218,810
 Amount withheld pending audit	 (4,990,627)
	<u>\$ 266,000,000</u>

We have attached a copy of the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2010, prepared from books without audit, for your files.

Please note that this request was held pending receipt of information from your agency regarding Other Postemployment Benefits (OPEB) reporting requirements which was received on August 30, 2010.

Sincerely,

Michael Ota

Michael Ota, Deputy Director
Finance Division

Attachment

cc: Joan Borucki, Director

**Attachment 2—
California Lottery's
Response to Draft Report**

600 North Tenth Street
Sacramento, CA 95811
calottery.com



April 7, 2011

Jeffrey V. Brownfield, Chief
Division of Audits
State Controller's Office
Post Office Box 942850
Sacramento, California 94250-5874

Re: QUARTERLY TRANSFER OF FUNDS TO PUBLIC EDUCATION

Dear Mr. Brownfield:

The California State Lottery (Lottery) received and has reviewed the report of the State Controller's Office (SCO) review of the Lottery's transfer of funds to public education for the quarter ended June 30, 2010. The SCO confirmed that the Lottery's transfer of \$1.09 billion to the Lottery Education Fund is supported by Lottery accounting records. The Lottery appreciates the opportunity to provide comments, and wishes to comment on two conclusions contained in the report.

Retroactive application of AB 142

For most of the 2009-2010 fiscal year, the Lottery Act required that at least 84% of total annual revenues be returned to the public in the form of prizes and contributions to public education and that administrative expenses not exceed 16%. On April 8, 2010, near the end of that fiscal year, Assembly Bill (AB) 142 was enacted and changed that formula to 87% and 13%.

The SCO applied the AB 142 formula to the entire 2009-2010 fiscal year, including time periods that already passed, and concluded that the Lottery exceeded the 13% limitation on administrative expenses and did not direct 87% to prizes and contributions to education.

AB 142 must be applied prospectively, not retroactively. AB 142 specifically states that its provisions shall be applied beginning "the first full fiscal year following enactment." The first full fiscal year after its April 8, 2010 enactment is the 2010-2011 fiscal year, beginning July 1, 2010. AB 142 did not contemplate retroactive application, and it would be unreasonable to apply the new requirements to time periods that already passed.

Jeffrey V. Brownfield
April 7, 2011
Page 2

Allocation of gains from the purchase and sale of investments

The SCO concluded that \$45,250,979 gained from the Lottery's purchase and sale of investments was inappropriately combined with revenues from ticket sales for the 2009-2010 fiscal year.

Gains on investments are not revenues from the sale of Lottery tickets. All revenues including moneys credited from any source are deposited into the State Lottery fund and are available for appropriate Lottery use including the purchase and sale of securities and the investment of funds deposited in the State Lottery Fund in other investments both inside and outside the State Treasury system. With two exceptions not relevant here, the Lottery Act does not restrict the use of funds from sources other than the sale of Lottery tickets. Rather, those funds may be properly used by the Lottery Commission in its sound discretion in order to maximize contributions to public education.

The Lottery Commission in enacting the 2009-2010 Lottery budget, applied the same formula to gains from the purchase and sale of investments as the formula applied to revenues from the sale of Lottery tickets. Those gains were directed to prizes and advertising expenses, which increase sales of Lottery tickets, thereby increasing contributions to public education. This is consistent with the Lottery's mission to maximize contributions to public education.

If you have any additional questions, please contact my Audit Chief, Roberto Zavala at (916) 323-7156.

Sincerely,



Linh Nguyen
Acting Director

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>